

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE POSTMASTER
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997)
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Docket No. R97-1

**BRIEF OF THE
COALITION OF MAILERS WHO PROVIDE
COURTESY REPLY ENVELOPES**

**American Bankers Association
American Financial Services Association
Direct Marketing Association
Mail Order Association of America
Major Mailers Association
National Postal Policy Council
National Retail Federation**

April 1, 1998

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OVERVIEW

The Coalition applauds the Postal Service's interest in searching for rate innovations that can save money for bill-paying consumers, and the Coalition would support innovations that are feasible. But the Service's PRM proposal is technically and financially impractical. Rather than trying to reform that proposal now, the Commission should defer action on PRM and direct the Service to form a task force to examine sensible alternatives to the present PRM proposal.

DISCUSSION

**A. The Postal Service's Own Market Study Shows That The
Existing PRM Proposal Would Be An "Administrative Nightmare"**

In advocating its PRM proposal, the Postal Service ignored the lessons of its own market survey of businesses (LR-H-226), which reported businesses' criticisms of the program as formulated. The Postal Service should have heeded these objections and withdrawn the program until it could be improved. Instead, the Service simply projected that only a small percentage of organizations would participate in the program

(USPS-T-32, pp. 42-43).

But the current program's defects are so profound that they would "creat[e] an administrative nightmare," as businesses told the Service's market survey group (LR-H-226, p.31).

There is no practical way that businesses could establish accounting programs that would enable them to recoup, as the Service proposes, their prepaid mailing expense from bill-paying customers. Businesses could bill any individual customer only for the actual number of postage-prepaid courtesy envelopes that the customer in fact used. To do this, companies would have to devise elaborate accounting methods to differentiate--separately for each and every customer--which customers did and did not use postage-paid courtesy envelopes and in which months. The systems would have to differentiate between customers who paid bills in each month, those who were billed monthly but paid only irregularly, and those who paid some times by mail and sometimes by other means (electronically or by going to the companies' offices or to a retail store).

These enormously complex PRM-accounting systems would have to be set up on top of existing systems that track remittance payments. Coalition members believe that, even if such PRM-accounting programs were technically feasible, their cost would dwarf the expense of the PRM discount itself.

Additional administrative problems would aggravate the expense for businesses. The cost of customer service, for example, would increase enormously as

bill-paying customers call for information or for new envelopes to replace ones that are lost or destroyed accidentally.

Source. Tr. 21:10709-10: "Current CRM users...were concerned... about...the cost per piece, the cost to process, as well as the administrative costs associated with PRM" (quoting USPS survey LR-H-226, p. 5) .

Source. Tr. 21:10711: "[T]he overall cost of introducing this product [PRM] was viewed as prohibitive..even at 27 cents" (quoting USPS survey LR-H-226, p. 40).

Only the very largest businesses could hope to afford these administrative expenses required by the PRM program. Many large businesses could not participate in the PRM program and would have to opt out of providing courtesy reply envelopes. (Smaller businesses could not afford to participate in the PRM program because of the Service's high monthly fees and volume and density requirements.)

B. Many Businesses Would Be Unlikely To Recoup the Prepaid Postage Expense From Customers

The Postal Service's proposal assumes that the billing company will recoup the postage payment by billing that expense to customers. But the Postal Service is naive. Companies that are regulated, like telephone companies and gas and electric distribution companies, cannot always increase their customers' bills without regulatory approval. Many cable companies are subject to rate controls by regulation or by franchises. Those companies would have to ask the regulatory authorities to change the companies' rates, thus incurring added costs. Some regulatory commissions might not be willing to approve the postage cost as an add-on without extensive, lengthy and expensive inquiries into the companies' overall costs and rate of return. These

companies would thus have no assurance that they could get rate-change authority promptly, or at all.

Similar problems would confront other companies, like banks and retailers, who operate in highly price competitive industries.

Source. Tr. 21:10712: “[M]any of the businesses interviewed do not believe that they would be able to introduce any type of increase in their rates to customers, either due to regulatory restrictions (in the case of utilities), or highly competitive environments (e.g., banks)” (quoting USPS survey LR-H-226, p. 5). Also: “It appears that the Postal Service did not expertly appraise the potential that the need for public utility approval might hinder PRM use by utility companies” (Tr: 21:10710, n. 71).

Source. 21:10710: For utility companies, “the issues related to regulation of rate structures...[were] also identified as a barrier to using BRM, as any changes to the rate required to cover the costs of offering BRM would require justification to the commissioner” (quoting USPS survey LR-H-226, p. 21).

Source. LR-H-226, page 28: “Utility companies were concerned about the logistical feasibility of including the additional cost of PRM as part of their rate structure to charge clients. The utility companies discussed the need to justify all their costs to a regulatory board or commissioner. The components of these costs usually apply to all of their customers and, because it is not anticipated that PRM would be used by all customers (many would continue to use other methods [of payment]), interviewees anticipate significant challenges [to] charging everyone for something that only a select group will likely use. The banks and security and insurance companies indicated that they cannot justify introducing any additional fees to their customers. Bank 2 in particular indicated that they have already eliminated their annual fee because of competitive pressure, and there really isn’t any room to add fees to the interest rate, which is also very competitive.”

C. Both Consumers and the Postal Service Can Incur Significant Losses If the PRM Proposal Is Adopted

Although the PRM proposal is being pushed as though it would be a benefit to consumers, it can have the opposite result.

If businesses have to incur the tremendous administrative expense that PRM

entails, businesses would ultimately face losses or decreased profits that would weaken their ability to provide better service at reduced prices. The loss of improved services and reduced prices could cost individual consumers far more than the few dollars that PRM might save them yearly.

The Postal Service could suffer too. Under the Service's PRM proposal, with its \$1,000 monthly fee and high volume and density requirements, only the largest businesses could participate, with the result that smaller businesses would be placed at a competitive disadvantage and would seek non-mail means to render their billings. By changing the economics of bill-paying by remittance mail, PRM would thus accelerate business' efforts to divert mail to increasingly attractive electronic alternatives for bill payment. For the same reasons, PRM would accelerate the drive toward consolidation of remittance mail pieces, sapping postal revenues.

**D. If the Commission Approves Both PRM and CRM Proposals,
The Governors Are Likely To Block CRM So That Only
PRM Will Become Effective**

The Commission's Office of Consumer Advocate (OCA) appears to urge that the Commission should recommend adoption of both the Service's PRM proposal and OCA's own CEM proposal. This is, at best, unrealistic. In three past cases, the Commission has sent the Governors CEM-type recommendations, but the Governors have rejected them or never put them into effect. (See Tr 21:10716-30.)

In this proceeding, if the Commission recommends adoption of both the CEM and PRM proposals, the Governors' action is predictable. The Governors are likely to put PRM into effect and to block CEM, thus killing CEM's chances forever. That is not a

result that the Commission should celebrate.

E. The Commission Should Not Recommend Adoption of the Current PRM Concept and, Instead, Should Invite the Postal Service To Convene A Working Group Of All Interested Parties

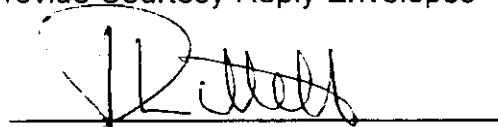
PRM is a flawed concept that the Service failed to improve after its own marketing study showed that the Service's PRM proposal is impractical, infeasible and unacceptable to the businesses upon which it would be imposed. The Commission cannot cure these defects at this time. Instead, the Commission should defer action upon the concept, while inviting the Service to convene a working group or task force that includes all stakeholders, including representatives of consumers, mailers, the Postal Service and Commission staff experts and others.

The Coalition continues to believe that, notwithstanding the failures of the current PRM proposal, the concept of consumer discounts for reply mail warrants serious consideration, perhaps in an experimental service case. Of course, the best consumer policy imaginable would be one that holds down the cost of future rate cases to a level below the rate of inflation and, thus, effectively reduces rates (in real dollars) for all Americans.

Respectfully submitted,

The Coalition of Mailers Who
Provide Courtesy Reply Envelopes

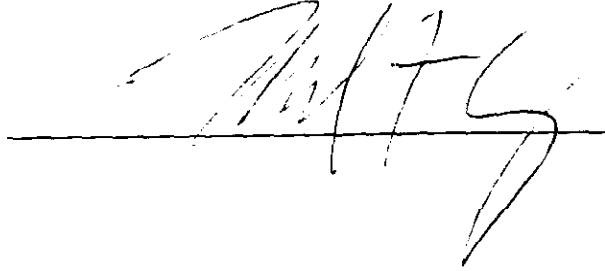
April 1, 1998


Richard Littell

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

April 11, 1998

A handwritten signature in black ink, appearing to be "Timothy", is written over a horizontal line.